Why the iPhone is such a success story
By Frank Goedertier & Kristof Geskens


This Flanders DC study by Prof. Dr. Niraj Dawar and Dr. Frank Goedertier emphasises that clever innovative companies place the focus not on the development of a new product but rather on the development of a new market segment. New market segments can be developed in a variety of ways. This report explores the impact of consumers’ thought processes on their buying behaviour and shows that companies that take astute advantage of these processes can create a cognitive competitive advantage.

The context: increasingly ‘downstream’ activities are making the difference

A company’s activities can be divided into upstream activities and downstream activities – or, respectively, everything that happens before and after a product comes onto the market. In the last few years, the ability of upstream factors (raw materials, production, R&D, etc.) to build competitive advantage has fallen off sharply. In fact, a majority of companies in many Western economies now have easy access to upstream factors of equal quality via outsourcing or in-house development. This means that the relative capacity of downstream activities (marketing, sales, service, brand policy, etc.) to build competitive advantage is on the rise. A good example of this evolution is the car industry: all of the manufacturers produce cars of equivalent quality, but they differentiate themselves from each other in the area of brand perception. So, investing in downstream pays off!

Winning – and maintaining – a preferential position by positioning innovations as category-prototypes

An important downstream activity is introducing innovations into the market. The Flanders DC study shows that companies can optimise their innovation success rate when they succeed in establishing an innovation as the prototype for a new product (sub)category in the minds of consumers.

The study reports that such a prototypical position gives companies a cognitive competitive advantage, or a preferential position in the consumer’s mind compared to other branded products. The study describes three different categories of cognitive effects that companies can capitalise on to build and maintain such an advantage.
Companies can DEVELOP a cognitive competitive advantage by capitalising on ‘prototype processes’:

By definition, the one who innovates has the advantage of differentiation within a certain product category. The art is to position the new brand so that the consumer regards it as the prototype – or the standard – for a new market segment. Companies that succeed at this are able to develop competitive advantage by capitalising on prototype processes like the ‘ideal point’ effect. This effect refers to the fact that consumers view the features of a prototypal brand as the ideal combination of features for a brand in this product category.

Companies can MAINTAIN a cognitive competitive advantage by capitalising on ‘satisfaction and balance processes’:

Because consumers are confronted with a surfeit of choice and a shortage of time, they simplify their selection process and look for a satisfactory solution instead of an optimal solution. Thanks to the advantageous position built up in the consumer’s mind, the chance is great that consumers will first consider prototypal innovations. Through the satisfaction processes, there is also a high probability that consumers will consider few (or no) other options as long as the prototypal innovation provides a satisfactory solution.

Balance processes refer to the fact that the consumer strives for balance or consistency in his or her mind. An example of a balance process is the fact that consumers process new information ‘confirmationally’. In other words, they interpret new information in such a way that it does not conflict with the relevant information that they have already stored in their mind. Given that prototypal innovations hold a preferential position in the minds of consumers, the chance is great that they will be used as the point of reference when the consumer receives new information about the category. When this new information is ambiguous or not very explicit, the consumer is inclined to interpret this to the advantage of the prototypal innovation. Companies with prototypal innovations can capitalise on this process to maintain their cognitive competitive advantage.

iPhone as the perfect example

For some years now, Apple has been incomparable at capitalising on these cognitive processes and, with clever product innovations, has succeeded in redefining the market for various electronic products (e.g., computers, MP3 players, mobile phones, and so on). A connecting thread running through these innovations is the introduction of the ‘design’ aspect as a purchasing criterion, which has been innovative in the product category every time. By establishing ‘design’ as a new purchasing criterion, Apple has succeeded in creating niches in the existing markets – achieving a prototypal position by introducing beautifully designed products like the MacBook or the iPod.

The most recent example of this strategy is of course the iPhone which, since its launch, has developed into a prototype for a new generation of mobile products. The fact that so many people think an iPhone is so much more than an ordinary Smart Phone intuitively illustrates the power of a prototypal position. Two years after its initial launch, the iPhone is still the coolest electronic gadget on the market. With the iPhone, Apple has been able to build a clear cognitive advantage and knows how to maintain it.